

VOL. XXXIX

No. 44

29-July-1996

**Saudi Arabia****Khalid Bin Mahfuz Returns To NCB**

Mr. Khalid bin Mahfuz is to return to National Commercial Bank (NCB), the largest bank in Saudi Arabia, as Chairman of the Executive Committee and General Manager, after his departure from the bank in July 1992. Following the recapitalization of the bank in the course of 1992 and the death of his father, Shaikh Salim bin Mahfuz, towards the end of 1994, Mr. Mahfuz became the owner of 98.8% of the bank's stock by buying out the other members of his family. In 1992, he had resigned his then position as Deputy General Manager and Chief Operating Officer of NCB (his father was then General Manager) in order to defend himself against accusations of fraud and racketeering by the New York authorities over his involvement with the collapsed Bank of Credit and Commerce International (BCCI), of which he had been a director for just under a year in the late 1980s. The charges surrounded Mr. Mahfuz's alleged concealment of his ownership of First American Bankshares, a company which was subsequently found to have been a front for BCCI. Mr Mahfuz consistently denied any wrongdoing and never admitted to any liability through his association with BCCI. The charges against him were dropped after he had settled out of court in 1995 to the tune of \$245mn.

In a statement released by NCB on 22 July, Mr. Mahfuz is quoted as saying that he will "build upon the excellent work" of his elder brother Muhammad and "there will not be any change in (the bank's) strategic direction." NCB points out that, despite his relinquishment of the chief operating officer's role, Mr. Mahfuz has remained involved in decisions on the strategic questions affecting the bank because of his controlling interest in the bank's stock. Mr. Mahfuz's elder brother and NCB's current Chairman, Mr. Muhammad bin Mahfuz, will, however, be retiring completely from the bank. Under his chairmanship, and with the help of Mr. Mike Callen, a former Vice-Chairman of Citibank who has acted as an advisor to the board since early 1993, NCB has largely regained its reputation for prudent banking practice following two years, 1990 and 1991, when it was unable to publish accounts and three years, 1987 to 1989, when it was able to publish only qualified accounts. It is widely believed that these problems were due to the level of non-performing loans extended to the Saudi royal family in the 1970s and 1980s.

Rumors that Mr. Khalid bin Mahfuz was about to return as chairman of NCB have been circulating in the Kingdom for several weeks. Bankers say that it is certain that permission for the move will have come from the highest circles in the Kingdom, and that a condition of Mr. Mahfuz's return may well be that other reputable partners are brought into NCB in order to lend credibility to the bank's ownership structure. The press release says that "it is the shareholders' intention to extend the ownership in the future as the bank moves progressively towards public ownership." Prior to the news of Mr. Mahfuz's return as chairman, senior officers of the bank have been hinting for some time that incorporation of NCB before listing on the unofficial Saudi stock market was desirable. At *MEES* press time, however, the timing of such a move could not be confirmed. However, it seems unlikely that SAMA would jeopardize hard won confidence in the banking sector by not insisting on a dilution of ownership just when NCB, the largest bank within its jurisdiction, appears to have turned the corner after several years of criticism.